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SUBJECT: LULA BACKS TRADE MINISTER FURLAN AGAINST BNDES'S LESSA

Ref: (A) 03 Brasilia 3813, (B) 03 Brasilia 3701

1. President Lula has arbitrated a very public victory for Development, Industry and Trade Minister Luiz Furlan in Furlan's latest policy bout with the old-school-leftist-ideologue president of Brazil's National Bank for Economic and Social Development (BNDES), Carlos Lessa. The fight was over BNDES's introduction on March 1 of new guidelines that would have compelled "foreign" companies to pay up to 1.5% more than "national" ones on certain categories of loans from BNDES, which for practical purposes is Brazil's sole domestic source of major long-term financing for commercial as well as development projects.

2. Lessa's excuse for his new, discriminatory guidelines was that "Brazilian" companies are supposedly disadvantaged by their inability to access loans on the international market. Furlan on April 1 sent Lessa a written directive to revoke the measure, on the grounds that (i) it conflicts with GoB policy and Brazil's self-interest in attracting foreign investment; (ii) differentiation between domestic and foreign capital is problematical in a transnational business age; and (iii) BNDES now has abundant funds to lend, the GoB having authorized its budget to be increased 43% this year, to Reals 47 billion (about US\$15.6 billion).

3. Despite the fact that BNDES bureaucratically exists as part of the Furlan's ministry, Lessa made known that he viewed Furlan's written instruction as a request rather than an order, and BNDES as being "supervised by," not subordinate to, the Minister. On April 13, Lula's Chief of Staff Dirceu transmitted to Lessa the President's direct order to repeal his March 1 measure. A hastily-convened session of the BNDES board did so that evening, but stressed that it was doing so only in obedience to President Lula, with no mention of Furlan.

4. COMMENT. Lula's appointment of the leftist academic Lessa to head BNDES in early 2003 was a consolation prize to the Workers' Party's (PT) traditionalist economic dogmatists who had been conspicuously shut out of the major economic-policy positions in the new GoB. Furlan resisted it vainly then, and has had recurrent run-ins with Lessa since, including over a major BNDES investment decision last November when Lula slapped Lessa down (Reftels.) Although Lessa remains in place, Lula's backing of Furlan's pro-foreign-investment approach in this latest skirmish shows once again his unambiguous, pragmatic rejection of the old-style PT mindset.

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